Michigan Tourism Outcomes Soar
as Post Labor Day Schools law takes effect
"Hotel occupancy results demonstrate law provides boost in spite of weak state economy"

<u>Lansing, MI</u>—Michigan's new law requiring all state schools to open after Labor Day is providing everything its supporters said it would, in spite of a weak state economy. The Michigan Hotel, Motel & Resort Association (MHMRA) asked members to participate in a statewide survey comparing occupancy levels in the last two weeks of August this year to that same time last year.

According to survey respondents, 53% of hotels had higher or much higher occupancy levels in the last two weeks of August. Twenty nine percent of properties reported that occupancy levels remained the same. Sixty two percent of property managers reported that the new Post Labor Day School law had a beneficial impact on their property's occupancy in late August.

"Approximately 70% of state tourism comes from in-state residents," said MHMRA's CEO, Steve Yencich. "That makes these results especially impressive because summer travel by Michigan residents was likely suppressed by a weakened state economy and high gas prices.

"Hotel occupancy is a good barometer of overall tourism outcomes. These results are good news for golf courses, restaurants and all segments of a diverse tourism industry."

Of the survey respondents, 48% managed resort properties, 27% were rural and 25% were urban property managers. Twenty seven percent of responding properties were full service, 33% were limited service and 40% were independently owned and operated.

The survey presented one surprising result. The new law also led to marked increases in hotel occupancy over Labor Day weekend. Forty three percent of properties had higher or much higher occupancy levels over the holiday weekend.

"Apparently increased availability of family vacation time leading up to the holiday prompted more people to extend their stay on into Labor Day weekend," said Yencich. "Michigan's post-Labor Day school law was a real boost for families, tourism and our state's economy."

Tourism is Michigan's 2nd largest industry and contributes over $2.4 billion annually in federal, state and local tax receipts.

The 100 year old Michigan Hotel, Motel & Resort Association is a trade association based in Lansing. The association advocates, educates, and markets on behalf of lodging properties throughout the state. For more information, please visit http://www.michiganhotels.org.

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Economic Benefits Derived from
Enactment of HB 4803
Post Labor Day Schools

With an unemployment rate that is second only to that of Mississippi, it's no secret that Michigan's economy still lags well behind the rest of the country. But there are significant, widely popular and politically attractive means by which Michigan policymakers can positively address such problems.

Michigan's Tourism industry is utterly dependent on discretionary spending for its financial outcomes. Such spending is impacted by weather, world events, gas prices, economic conditions, unemployment levels and overall consumer confidence. This means that state tax revenues derived from tourism are equally tied to factors over which, in many cases, state policymakers have little or no control.

As such, seizing opportunities to effect beneficial change over factors we <u>can</u> control becomes all the more important. HB 4803 represents just such an opportunity. Passage of HB 4803 represents both a popular and inexpensive means to provide a significant boost to the state's economy.

An EPIC/MRA poll recently found that 63% of voters supported legislation to require state schools to open after Labor Day with only 22% opposed. In fact, 67% of parents of school age children support such a change. However, the economic impact of this legislation provides far more compelling reasons to pass HB 4803.

Based on figures validated by Michigan State University's Travel, Tourism & Recreation Resource Center, passage of HB 4803 will provide an increase of $132 million in statewide economic activity and increase overall state tax revenues by at least $10 million. Such an increase in tourism sales would provide a sorely needed boost to Michigan's economy, as well as its second largest industry which is just coming off one of the worst four year periods in its history.

In summation, passage of HB 4803 is projected to generate an additional:

- **$132 million in statewide economic activity**
- **$10 million dollars in total tax revenues to the State.**

- **$7.92 million** - **additional tourism sales tax**
- **$ 365,000** - **projected new Michigan income tax**
- **$1.55 million** - **new indirect tax revenue**
- **$ 288,000** - **new induced tax revenue**

$10,123,000.00 – Total tax revenues derived from passage of HB 4803

Methodology

- Michigan tourism is a $16 billion per year industry directly supporting 188,000 jobs – indirectly supporting 240,000 jobs.
- 43% of all tourism revenue is generated in June, July and August.
- 43% X $16 billion = $6.88 billion (summer) ÷ 92 days = $75 million per summer day.
- $16 billion minus $6.88 billion (summer) = $9.12 billion non-summer (average) days.
- $9.12 billion ÷ 273 (average days) = $33 million per average day
- $75 million less $33 million = $42 million difference from changing a 'summer' day to an 'average' day.

The last available research (1997) showed that as many as 70% of all Michigan K-12 schools started before Labor Day, 30% after. Assume that the average Michigan school starting date (for the 70%) is August 22, 2005 (some sooner, some later) - This effectively shortens the summer vacation season by 15 days less 4 weekend days (Saturday and Sunday) and 2 Holiday days (September 2 & 5) = 9 days reduced from 'summer' to 'average'.

- 9 lost summer days X $42 million (difference) = $378 million negative tourism expenditure impact (if all schools started before Labor Day)
- $378 million X 70% (adjustment for the 30% of Post Labor Day schools) = $265 million lost tourism expenditures before adjustments.

Adjustment assumptions: 1) 35% of all Michigan travel is to visit friends and relatives (VFR) - severely impacted when school starts. 2) 35% of all travel to Michigan is from outside of the state – generally not impacted by school starts. 3) 57% of summer trips are with school age children – ending midweek vacations for those Michigan families. 4) Some older couples and savvy travelers wait schools start to travel adding strength to the 9 'average' days 5) Special incentives and reduced prices deflate the average travel expenditures during this period. 6) For the sake of argument we will assume that the two holiday and four weekend days will maintain the full revenue strength of a 'summer' day.
Given the above we may extrapolate that the non-holiday midweek days prior to Labor Day, that school is in session, will generate revenue halfway between 'summer' and 'average', therefore:

- $265 million (lost revenue) X 50% adjustment assumptions = $132 million.
- $132 million X 6% (sales & use tax) = **$7.92 million lost state tax revenue**

A conservative estimate of the seasonal labor force of those impacted by the school opening dates is 5% (students, teachers, parents, etc.). Most will leave their employment at least prior to the weekend prior to school opening (August 19, 2005) = = 19 net lost working days – 15 net work days (5 days per week).

- 188,000 employees X 5% = 9,400 employees
- 9,400 X 15 days = 141,000 days X 8 hours per day = 1,128,000 lost hours
- 1,128,000 X $8.50 per hour = $9.6 million in unpaid wages
- $9.6 million X 3.8% Michigan income tax rate = **$365,000 unpaid MIT**
- SUT is not included as an impact to the state treasury

The indirect multipliers are detailed in the footnote

- $129 million (lost sales revenue) X est. 10% Michigan 'capture rate X 2.0 indirect effect multiplier = $25.8 million X 6% (sales & use tax) = **$1.55 million lost indirect tax revenue**
- $9.6 million in unpaid wages less est. 75% dedicated expenses (rent, taxes, savings, etc.) = $2.4 million lost discretionary spending X 2.0 induced effect multiplier = $4.8 million X 6% = **$288,000 lost induced tax revenue**

Footnotes:

The following is an excerpt from
HYPERLINK "http://www.msu.edu/user/stynes"
www.msu.edu/user/stynes
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Input-Output Analysis Terminology
A number of special economic impact terms arise from the methods used to estimate impacts. The most widely accepted approaches are based on input-output models. An input-output model is a representation of the flows of economic activity within a region. The model captures what each business or sector must purchase from every other sector in order to produce a dollar's worth of goods or services. Using such a model, flows of economic activity associated with any change in spending may be traced either forwards (spending generating income which induces further spending) or backwards (visitor purchases of meals leads restaurants to purchase additional inputs -- groceries, utilities, etc.). By tracing these linkages between sectors, input-output models can estimate secondary effects of visitor spending, often captured in the form of multipliers. Popular input-output modeling systems include IMPLAN, RIMS II, and REMI. We have worked primarily with the IMPLAN system, which can estimate models and multipliers down to a county level.

Secondary effects of visitor spending are of two types: indirect and induced. Indirect effects are the changes in sales, income or jobs in sectors within the region that supply goods and services to the recreation/tourism sectors. The increased sales in linen supply firms resulting from more motel sales is an indirect effect of visitor spending. Induced effects are the increased sales within the region from household spending of the income earned in the tourism and supporting sectors. Motel or park employees spend the income they earn from tourists on housing, utilities, groceries, etc. These represent induced effects of the visitor spending. Multipliers capture the size of the secondary effects, usually expressed as a ratio of total effects to direct effects. Total effects are direct effects plus the secondary (indirect plus induced) effects. A sales multiplier of 2.0, for example, means that for every dollar received directly from a visitor, another dollar in sales is created within the region through indirect or induced effects. Multipliers are frequently misunderstood and misused and must be understood and applied with the context of the input-output models from which they are derived. A complete discussion of multipliers is beyond our scope here, but we will attempt to clarify the two most common sources of abuse by introducing the "capture rate" and discussing differences between the basic types of multipliers. Abuses largely come down to what a given type of multiplier should be multiplied by.

Multipliers should generally NOT be multiplied by total visitor spending. A sales multiplier is multiplied by a change in final demand within the region to yield the total change in sales including direct, indirect, and induced effects. Due to the way that input-output models are structured, all visitor spending does not accrue to the region as final demand. The primary problem is with retail purchases of goods. For goods that are manufactured outside of the region, only the retail margin and perhaps some portion of the wholesale and transportation margins appear as final demand for the region. The cost (producer price) to the retailer or wholesaler of the good itself leaks immediately out of the region's economy. The capture rate measures the portion of visitor spending that accrues to the region as final demand. Only the spending that is "captured" by the local economy should be multiplied by a sales multiplier.

An example should illustrate. Suppose a tourist purchases a camera for $100 while on a trip to the region. Assume the retail margin is 30%, or $30. Assume the wholesaler and shipper reside outside the local area, as does the company that manufactured the camera. The direct effect or final demand change in the local region is only $30, the other $70 immediately goes outside the region to cover cost of the good and shipping and wholesale. The $30 that does accrue to the region is placed in the retail trade sector. The input-output model examines the businesses that the retail store buys goods and services from to estimate indirect effects and uses the portion of the $30 that goes to wages and salaries of employees to estimate induced effects. Assume that a gross sales multiplier for the retail trade sector including both indirect and induced effects is 2.0, i.e., every dollar of sales in retail trade creates another dollar of spending through secondary effects. Notice that the total impact on the region is not two times the original $100 in spending, but instead two times the $30 captured by the local economy = $60. We get the correct result if we multiply visitor spending times the capture rate times the sales multiplier. An adjusted or "effective spending multiplier" equal to the capture rate times the sales multiplier can be multiplied by visitor spending to yield the correct impact.

Besides sales multipliers, one can also produce income and employment multipliers. There are two quite distinct kinds of income and employment multipliers. Ratio type multipliers like the sales multiplier are simply the ratio of total income (or jobs) to the direct income (or jobs). These multipliers should be multiplied by the direct income or jobs to yield a total. Keynesian income or employment multipliers (also called response coefficients) are ratios of total income (or jobs) to direct sales. Keynesian multipliers estimated from an input-output model must be adjusted by the capture rate before multiplying them times visitor spending.